



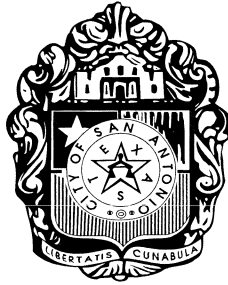
CITY OF SAN ANTONIO, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2003



CITY OF SAN ANTONIO



TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

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***City of San Antonio
Texas***

Introductory Section

(Unaudited)

CITY OF SAN ANTONIO, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For Year Ended September 30, 2003

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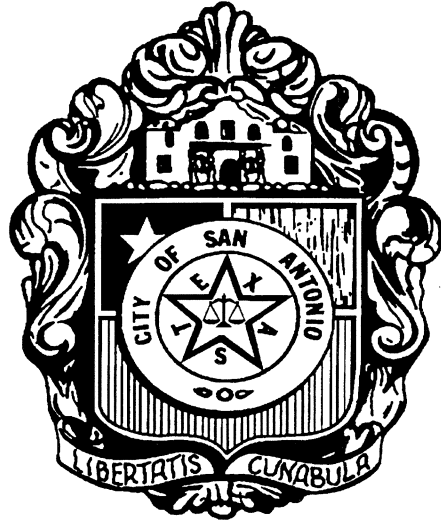
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CITY OF SAN ANTONIO

P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

March 1, 2004

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2003. Through our dedication and commitment to excellence, the City maintained its bond ratings with the nationally recognized rating agencies: Fitch, Inc. at AA+, Standard & Poor's Public Finance Ratings Services, a division of McGraw-Hill Companies, Inc., at AA+, and Moody's Investors Service, Inc. at Aa2. The ratings reflect strong financial management and position with continued tax base growth for the foreseeable future.

This report is prepared and presented by the City's Finance Department. Accordingly, the responsibility for the accuracy, completeness and fairness of the data and presentation, including all disclosures, rests with the management of the City. The public accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA, have audited the financial statements contained herein. As reflected in the independent auditors' report, the City's financial statements are presented fairly in all material respects.

The CAFR is presented in three sections: introductory, financial, and statistical.

- The introductory section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.
- The financial section includes the independent auditors' report, Management's Discussion and Analysis (MD&A), the basic financial statements, which consist of government-wide and fund financial statements and notes to the financial statements, other required supplementary information other than MD&A, and other supplementary information.
- The statistical section consists of selected financial and demographic information presented on a multi-year basis.

In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, and the State of Texas Single Audit Circular. The independent auditors' report on the basic financial statements, MD&A (required supplementary information), required disclosures and schedules are included in the financial section of this CAFR. Required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents. As in the past, the City will prepare and submit recommendations on any single audit findings of noncompliance with applicable regulations for corrective action in order to achieve compliance in the future.

As noted above, included in the financial section of the CAFR is MD&A, which presents a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements the MD&A and should be read in conjunction with it. The City of San Antonio's MD&A can be found immediately following the report of the independent auditors.

THE REPORTING ENTITY AND CITY SERVICES

Reporting Entity

The City of San Antonio is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the state capital of Austin and serves as the county seat for Bexar County. As of September 30, 2003, the City's geographic area was approximately 505.86 square miles. The United States Census Bureau cites the City as the third largest city in the state of Texas and ninth largest city in the country. The estimated population grew from 1,241,100 in fiscal year 2002 to 1,262,800 in fiscal year 2003, an increase of 1.75%.

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Reporting Entity", other related entities are included in the CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Health Care Fund, the City of San Antonio Texas Municipal Facilities Corporation, and the City of San Antonio Texas Starbright Industrial Development Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. (SALDC), Brooks Development Authority (BDA), the San Antonio Water System (SAWS) and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees.

For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Footnote No. 1, entitled "Reporting Entity".

Services

The City provides a vast array of municipal services. These services include but are not limited to fire and police protection, street and sidewalk maintenance, libraries, parks, and solid waste disposal. In addition, the City maintains preventive health services, and facilitates economic and neighborhood development. These services are funded from various sources, which include ad valorem taxes, hotel/motel taxes, sales taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

City Public Service (CPS) is one of the largest municipally owned utilities in the country. It provides electric and gas services to the greater San Antonio area. CPS operations and debt service requirements for capital improvements are funded by revenue derived from charges to its customers. The City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. In this report, CPS is included as a major discretely presented component unit. CPS is governed by a Board of Trustees, which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. Additional information on CPS is discussed in the section "Infrastructure Development."

San Antonio Water System (SAWS) provides water, wastewater, chilled water, and steam and reuse water services to the San Antonio area. SAWS is a City owned, separate consolidated entity that addresses water related issues in a coordinated and unified manner. Revenues from its customers fund SAWS' operations, capital improvements, and related debt service requirements. The City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. SAWS is governed by a Board of Trustees that includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. Additional information on SAWS is discussed in the section "Infrastructure Development."

THE REPORTING ENTITY AND CITY SERVICES (Continued)

Services (Continued)

The San Antonio Development Agency's (SADA) mission is to focus on housing with emphasis on activities inside Loop 410 while continuing the implementation of the City's Urban Renewal Program. It may designate for urban renewal such areas as it deems advisable, subject to approval by the City Council and the federal agency that administers the overall program. A majority of SADA's funding is provided by the City as pass-through grants. The board of SADA is composed of seven members appointed by the City Council.

The City of San Antonio Education Facilities Corporation (SAEFC), formerly the San Antonio Higher Education Authority, was established in accordance with State law for the purpose of aiding non-profit institutions of higher education in providing educational and dormitory facilities. This corporation is authorized to issue revenue bonds for the purposes previously mentioned, but said bonds are not obligations of the City. An eleven member Board of Directors appointed by the City Council governs the SAEFC for two-year terms.

The Greater Kelly Development Authority (GKDA) is charged with the task of all issues related to the closure, conversion, redevelopment, and future use of Kelly Air Force Base. The GKDA is also responsible for reviewing all options related to the most appropriate uses of the property on the base and surrounding areas. An eleven member Board of Directors appointed by the City Council governs the GKDA.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) was organized for the purposes of supporting charitable, educational and scientific undertakings, and to provide housing for low and moderate-income families. The SAHTF is also responsible for the administration and operations of the City's Housing Trust Fund, established for the same purpose noted above. An eleven member Board of Directors appointed by the City Council governs the SAHTF.

The San Antonio Local Development Company, Inc. (SALDC) was established in 1978 to help small businesses in South Central Texas realize business growth and job creation by facilitating access to a diverse package of intermediate and long-term loans. The SALDC administers the following loan programs: Small Business Administration (SBA) 504 Loan Program, SBA Microloan Program, Economic Development Administration (EDA) Revolving Loan Fund (RLF), Inner City Loan Program and the Housing and Urban Development (HUD) Enterprise Community Loan Program. The City Council appoints thirty-three Trustees to oversee SALDC, from which eleven members serve as the Board of Directors and govern the activities of the corporation.

Brooks Development Authority (BDA) was designed to improve mission effectiveness, reduce the cost of providing quality installation support, and promote economic development on Brooks Air Force Base and in the surrounding community. Dedicated funds provide basic municipal services at the base while continuing to develop BDA as a technology and business park. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms.

ECONOMIC OVERVIEW

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality-of-life for all citizens. City government has played an integral part by implementing "A Strategic Plan for Enhanced Economic Development" through the collaborative efforts of San Antonio, Inc., a group of economic development organizations within San Antonio. Furthermore, the City is undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing incentive, assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio. As a result of the North American Free Trade Agreement (NAFTA), San Antonio has been able to capitalize on international trade opportunities by becoming a distribution point and center for companies doing business in Mexico. San Antonio is the closest major U.S. city to Mexico's biggest markets and enjoys close cultural and business ties to that nation. San Antonio's leading industries include

ECONOMIC OVERVIEW (Continued)

biomedical research and health services, international trade and distribution, information technology and security, telecommunications, tourism, financial services, and the military.

Employment Sectors

The nonagricultural employment sectors distribution for the San Antonio metropolitan area as of September 2003, according to statistics provided by the Texas Workforce Commission, is as follows:

Industry Sector	Percentage of Total Employment	Jobs	% Change (9/02 to 9/03)
		Gained/(Lost) (9/02 to 9/03)	
Mining	0.3%	(200)	(9.1%)
Construction	5.6%	600	1.4%
Manufacturing	6.1%	(1,200)	(2.7%)
Trade, Transportation, Utilities	18.1%	1,900	1.4%
Information/Telecommunications	3.1%	(700)	(3.1%)
Finance, Insurance, & Real Estate	8.1%	1,200	2.0%
Prof./Business Services	11.8%	1,000	1.1%
Education and Health Care Services	13.4%	3,300	3.3%
Leisure and Hospitality	11.3%	2,300	2.8%
Other Services	3.8%	300	1.0%
Government	18.4%	1,500	1.1%
Total	100.0%	10,000	

The San Antonio Metropolitan Statistical Area included over 803,000 jobs, with 694,000 jobs occurring in Bexar County. The area's largest employment sectors are Government, Retail and Wholesale Trade, and Health Care, which together comprise about 52% of the area employment. The largest growth in employment came in the Education and Health Care sector with a gain of 3,300 jobs (or 3.3% annual growth).

The City's health care sector provides services through its medical, research, education, and development facilities. The City's biomedical industry continues to dominate as the largest industry segment in the San Antonio economy. According to a study distributed by The Greater San Antonio Chamber of Commerce, this industry had a total economic impact of \$11.5 billion in 2001. This industry employs more than 98,000 with an annual payroll of \$3.4 billion. Between 1990 and 1999, the economic impact of the health care industry nearly doubled (97.2% increase). Additionally, employees in the health care sector earn more than the San Antonio average wage.

San Antonio is unique because its research institutions have a strong array of expertise in basic and applied instrumentation, pharmacology, diabetes, cancer therapy, virology, sports medicine, transplant medicine, geriatric medicine, dental medicine, specialized medical instruments, and information security technologies. These strengths provide San Antonio with a rich collection of world-class research facilities.

Some of the biomedical assets that the City possesses are: the Air Force Center for Environmental Excellence (AFCEE), BioMedical Enterprises, Biomedical Development Corporation, BioNumerik, Brooke Army Medical Center (BAMC), Brooks City-Base, the Cancer Therapy and Research Center (CTRC), Conceptual Mindworks, Inc, DPT Laboratories, ILEX Oncology, Inc., Incell Corporation, KARTA Technologies, Lipitek International, Mission Pharmacol, Probetex, OsteoBiologics, Research Dynamics, Inc., Southwest Foundation for Biomedical Research (SFBR), Southwest Oncology Group, Southwest Research Institute (SwRI), TEKSA Innovations, Texas Blood and Tissue Center, Texas Research Park Foundation, the University of Texas at San Antonio (UTSA),

ECONOMIC OVERVIEW (Continued)

Employment Sectors (Continued)

University Hospital, University of Texas Health Science Center (UTHSC), USAF School of Aerospace Medicine, U.S. Army Institute of Surgical Research, U.S. Army Medical Department Center and School, and USAF Wilford Hall Medical Center.

The University of Texas at San Antonio (UTSA) is adding two new significant assets to this impressive list of biomedical assets. UTSA is now operating a bioprocessing facility at Brooks City-Base that will house labs containing two or three fermenters ranging from about 40 liters to possibly 350 liters, a purification/downstream processing area, a cell culture area, a 2,400 square foot common lab with smaller fermenters for training and research, and an analytical lab.

UTSA is constructing a new \$83 million Biotechnology, Science and Engineering building. The facility will consist of 227,000 square feet for lecture halls; research and teaching laboratories; and seminar, conference, and classrooms to accommodate students in the College of Sciences and Engineering. The facility will also be home to the new doctoral degree programs in cell and molecular biology, computational biosciences, and bioengineering. The completion and eventual operation of the facilities will be vital to the continued development of the health and biotechnology industries in San Antonio.

Additionally, San Antonio has three major military hospitals, which have positively impacted the City for decades. The United States Air Force's largest medical facility, Wilford Hall Medical Center (WHMC), is an acute care facility. WHMC provides complete medical care to military healthcare beneficiaries in the south central United States and specialized care to patients from all over the world. WHMC contains the only Eye Bank within the Department of Defense and operates the only military programs for liver transplantation and allogenic bone marrow transplantation. The Brooke Army Medical Center (BAMC) is an ultra modern and state-of-the-art acute care facility that provides trauma care and graduate medical education. It includes the world-renowned Institute of Surgical Research Burn Center. Both WHMC and BAMC support the surrounding local communities by participating fully in the trauma and emergency medical care of the San Antonio and South Texas civilian communities. The Audie L. Murphy Memorial Veterans Hospital is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, and The Audie L. Murphy Research Services, which is dedicated to medical investigations. It serves forty-one counties and a veteran population of 300,000 throughout South Texas.

Yet another significant industry within San Antonio is the information technology and security industry. According to a recent study of the economic impact on San Antonio that was commissioned by the Greater San Antonio Chamber of Commerce, this industry employs 11,475 people with an annual payroll of \$500 million and has an economic impact of \$3.4 billion. With organizations such as the Air Intelligence Agency and the Center for Infrastructure Assurance and Security at the University of Texas at San Antonio, the city has a reputation for excellence in information security.

Past terrorist events resulted in unforeseen national defense strategies. The nation is faced with having to protect its citizens from the direct effects of biological warfare. In addition, a more concentrated effort to mitigate or prevent biological terrorism has been generated in the information security industries. As a result of San Antonio's rich biosciences and information technology industries, the City has positioned itself to surface as the world's foremost Homeland Security Solutions City. To achieve this goal, the Southwest Enterprise for Regional Preparedness (SERP) has been formed and is leading the collaborative efforts among the numerous organizations within San Antonio with skills and expertise in homeland security. The SERP has initiated several innovative projects that will surely achieve the goal of making San Antonio the Homeland Security Solutions City. More importantly, these efforts will make substantial contributions to the security of the nation's homeland and play a pivotal role in building upon the City's designation as one of the top two most prepared cities in the country.

The hospitality industry represents another major component of the Services sector. San Antonio's natural, historic, cultural and recreational attractions have long made it one of the top vacation and convention destinations in the country. This has resulted in an increase in tourism activity, economic impact and employment

ECONOMIC OVERVIEW (Continued)

Employment Sectors (Continued)

opportunities related to the hospitality industry. The City's proactive management practices and marketing efforts resulted in the Convention & Visitors Bureau booking approximately 679 conventions in fiscal year 2003, with 711,216 associated room nights and an estimated economic impact of \$383.8 million. The San Antonio Convention & Visitors Bureau (SACVB) has booked approximately 2.74 million room nights from November 2002 through 2022.

The military continues to represent a principal component of the San Antonio economy. As of September 30, 2002, the military employed approximately 73,189 military, civilian and part-time guard and reserve personnel with an estimated direct economic impact of about \$4.8 billion. Three major active installations comprise the military sector: Lackland Air Force Base, Randolph Air Force Base, and U.S. Fort Sam Houston. In addition, Brooks Air Force Base property was conveyed to the Brooks Development Authority (appointed by City Council) on July 22, 2002, with the resident military missions remaining as tenants in the newly established Brooks City-Base Technology and Business Center.

The military presence within San Antonio was further enhanced with the relocation of US Army South to Ft. Sam Houston in September 2003. The relocation of this prestigious corporate headquarters organization to the City has added approximately 500 jobs with an estimated annual payroll exceeding \$42 million and an annual economic impact of \$200 million.

San Antonio's stature as a superb location for corporate relocations is growing. The City has attracted some major business enterprises to locate their operations in the City. Toyota Motor Manufacturing North America, Inc., has entered into an agreement with the City to invest \$400 million in an automotive manufacturing plant that will produce 150,000 Tundra trucks per year and employ 1,800 employees. Construction commenced in 2003 with production occurring in 2006.

Additionally, Maxim Integrated Products decided to expand its operations to San Antonio through its purchase of the Philips facility in Westover Hills. The City has also entered into an agreement with a large developer to develop a major area in San Antonio to include a Professional Golf Association (PGA) Resort with two golf courses, the construction of a major hotel, and construction of residential homes. The development area is in the Northeast part of the San Antonio outside of the city limits but within the Extraterritorial Jurisdiction Area. This operation covers approximately 2,597.6 acres of land.

United Services Automobile Association (USAA), a leading insurance agency, continues to be the City's largest private sector employer. Clear Channel Communications, Inc., also headquartered in San Antonio, is a global leader in the out-of-home advertising industry with radio and television stations, and other entertainment venues in forty countries around the world. New headquarters have also been built for San Antonio's energy company, the Valero Energy Corporation. Clarke American Checks, the third largest producer of checks and financial forms in the country with headquarters in San Antonio, expanded its local presence in 1999 with the addition of a major customer service center.

Business Climate and Outlook

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment.

The City's Economic Development Department (EDD), in coordination with the private non-profit San Antonio Economic Development Foundation, continues to attract major corporations to the area and help local businesses

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

expand. Although the nation's economy experienced a downturn in 2003, job growth continued in San Antonio with approximately 3,575 new jobs created through economic development programs.

The Heavy Industry Development Division of the City's Economic Development Department continues to focus on working with the Greater Kelly Development Authority in the successful redevelopment of KellyUSA, formerly Kelly Air Force Base, which officially closed on July 13, 2001. EDD is also working with the Brooks Development Authority to make Brooks City-Base an economic success. In addition, EDD is working with Fort Sam Houston to explore ways that the City can help this local installation become more cost efficient, reduce infrastructure support costs, preserve jobs, and enhance economic development opportunities.

KellyUSA

On July 13, 2001, Kelly Air Force Base ("Kelly AFB") officially closed and the land and facilities were transferred to GKDA. The new business park, known as KellyUSA, is focused on becoming the Port of San Antonio by: (1) establishing international air cargo operations; (2) developing a Kelly rail port for direct international rail operations including inland port distribution with the Port of Corpus Christi; (3) expanding aviation maintenance, repair and overhaul (MRO) operations into a renowned international center of excellence for MRO. KellyUSA assets include multi-modal infrastructure, including an 11,400-foot runway for commercial air operations valued at \$1.8 billion.

To further the redevelopment goals, GKDA has completed over \$191 million in new construction and facility upgrades over the past two years including a new 123,000 square foot hangar for Boeing and a new office building, which is currently leased at 94% of capacity. In addition, GKDA has planned a \$108.6 million capital improvement program for the next five years, including the demolishing of 5 million square feet in unusable facilities.

As of January 2004, redevelopment efforts have resulted in the retention of 7,400 military jobs and the creation of about 5,200 new commercial jobs. GKDA has also executed leases totaling approximately 8 million square feet of the space with 74 tenants such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric, and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for their continued use. In 2004, GKDA is beginning Phase II New Facility Development at KellyUSA that encompasses \$364 million in capital projects financed by City, State, Federal, and private sector funds. GKDA projects that Phase II will generate another 6,400 jobs and increase KellyUSA's economic impact on the community to \$4.3 billion annually.

Brooks City-Base

Brooks City-Base is a collaborative effort between the Air Force and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park, a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002, with the transfer of the 1,310 acres of land and improvements comprising Brooks AFB to the City Council-established organization, Brooks Development Authority ("BDA"), with the Air Force becoming Brooks Technology & Business Park's anchor tenant and leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to Brooks Technology & Business Park and has been providing fire and police services thereto since October 2001.

Base electric, gas, and water utilities have been transferred by the BDA to the City-owned utilities, CPS and SAWS. The BDA is also contracting with Grubb & Ellis, a national real estate developer and property management firm, to manage Brooks Technology & Business Park facilities.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

Fort Sam Houston

Fort Sam Houston has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the “Army”) entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. (FSHRP), for the redevelopment of the former Brooke Army Medical Center (BAMC) and two other buildings at Fort Sam Houston. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, have been vacant for some time and are presently in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. In September 2003, the Army relocated U.S. Army South from Puerto Rico to Fort Sam Houston, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately \$200 million. To facilitate this relocation, the Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC by summer 2004.

The continued success of this unique public-private partnership at Fort Sam Houston is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City’s economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam Houston currently available for redevelopment.

Base Realignment and Closure (BRAC 2005)

In 2005, another round of military base realignment and closures (BRAC) is scheduled. The community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project. To prepare for BRAC 2005, the City of San Antonio in partnership with the Greater San Antonio Chamber of Commerce and Bexar County, has established the San Antonio Military Missions (SAMM) Task Force. In November 2003, the SAMM Task Force hired an Executive Director and staff to begin developing and implementing a strategy for BRAC 2005 focused on promoting the military value of the community’s military assets.

San Antonio Technology Accelerator Initiative (SATAI)

SATAI is a targeted economic development initiative focused on developing an advanced technology economy in the San Antonio region. SATAI’s mission is to accelerate the regional technological economy through providing hands-on development of advanced technology start-up companies and assisting established companies in accessing tech-based solutions through Enterprise Services. One of the largest SATAI projects is the coordination of several homeland security initiatives through its leadership of the Southwest Enterprise for Regional Preparedness. SATAI’s efforts in this area will lead to several state of the art technologies that will be commercialized through new start-up technology companies.

SATAI has been very successful in becoming a key component in the development of San Antonio’s advanced technology economy. For example, SATAI helps companies pursuing venture capital funding prepare for venture capitalists presentation. Statistics indicate that companies completing this preparation program have a 50% chance of receiving funding. Conversely, companies that do not complete this program have a 1-5% chance of receiving funding from venture capitalists. In 2003, SATAI played an integral role in San Antonio companies receiving over \$13 million in venture capital and angel funding. SATAI has also been very successful in attracting the interest of venture capital firms throughout the country to participate in the San Antonio investment market. This has filled a huge void in the community’s efforts to develop the advanced technology economy.

Aerospace Industry Development

This industry provides over 8,200 jobs, with employees earning annual wages totaling over \$320 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

Aerospace Industry Development (Continued)

institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, Southwest Airlines, FEDEX, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul (MRO) and general aviation. San Antonio International Airport has added two new non-stop passenger routes to Cleveland and Guadalajara in 2003 with seasonal nonstop flights to Cancun, Mexico scheduled to begin in March 2004. Stinson is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002 and is being implemented. At KellyUSA, the MRO business continues growing as tenants such as Boeing, Lockheed Martin and Standard Aero continue to secure long-term government contracts. KellyUSA is also working to add air cargo activity as recommended by an Air Cargo Study and Strategic Plan completed in June 2002.

To support the workforce requirements for growing and sustaining a viable aerospace industry, the community partnered to establish the Alamo Area Aerospace Academy (AAAA), which opened in August 2001. The City has funded the AAAA with \$150,000 in fiscal year 2003. The inaugural class enrolled 121 high school students of which 94 graduated in May 2002. Of the 25 seniors in this class, 15 are now employed within the aerospace industry in San Antonio. There were 127 students in the fiscal year 2003 AAAA class and in September 2003 the FY 2004 class began with 130 students.

Complementing this workforce initiative is the Advanced Technology Center that opened at KellyUSA in April 2002 and provides an avionics curriculum. The City, in partnership with the Alamo Community College District, funded the \$3 million facility renovation project housing the Academy.

New Business Prospects

As of the fourth quarter of 2003, the San Antonio Economic Development Foundation, Inc., reported the City had 90 active business prospects. The new businesses are categorized as business services, transportation equipment, miscellaneous manufacturing, fabricated metal products, food products, and others.

Downtown Development Projects

During 2003, the new 100-room Watermark Hotel was completed, and construction commenced on the 350-room La Quinta Inn & Suites hotel project, which will reshape the downtown skyline. The City will continue its efforts to facilitate the development of a convention headquarters hotel adjacent to the recently enlarged Henry B. Gonzales Convention Center. The Convention Center Hotel Advisory Board (CCHAB) was formed to study and recommend financing and development options for this 1,000-room hotel.

International Trade

The Directory of San Antonio Exporters and Support Organizations (available on the City's International Affairs Department website) has identified over 700 local companies that export to other nations or provide export assistance.

During 2003, the International Affairs Department worked with 77 international delegations, which included 1,526 delegates that visited San Antonio. Delegations visited from Albania, Azerbaijan, Botswana, Brazil, Canada, Canary Islands, Chad, China, Colombia, Czech Republic, France, India, Korea, Malaysia, Morocco, Netherlands Antilles, Nigeria, Oman, Pakistan, Qatar, Romania, Slovenia, Spain, Switzerland, and Taiwan. The department also assisted more than 500 business clients generate over \$21 million in a bilateral trade between San Antonio and Mexico.

As of December 31, 2003, the North American Development Bank (NADB) had authorized loans and grants totaling approximately \$631.8 million for the development and financing of 70 infrastructure projects throughout the 10 states that comprise the U.S.-Mexico border region. These projects represent a total investment of

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

International Trade (Continued)

approximately \$2.18 billion and are benefiting an estimated 7 million border residents in the United States and Mexico.

The NADB has been the catalyst to significant and unprecedented levels of investment in environmental infrastructure along the U.S.-Mexico border. NADB participation in these projects represents about 29 percent of the total investment in these projects. Of these, 18 have been completed, 33 are currently under construction or in various states of completion and 19 are in the design or bidding stage and are expected to start construction this year. In the area of local capacity building, the NADB to date has authorized technical assistance under its Institutional Development Program (IDP) for 151 projects in 77 communities on both sides of the border.

Infrastructure Development

The City recognizes its obligation to address infrastructure needs and to provide the services required to maintain and continuously improve the living standards of its citizens. Infrastructure, the basic framework or underlying foundation provided by government to support a community's basic needs, including its various components that ensure economic activity, safety, education, and quality of life, are discussed below.

Basic Infrastructure Components

Public Safety

In fiscal year 2003, the Police Department continued to enhance crime prevention strategies by strengthening relationships between police and the community's neighborhoods in order to proactively address property and violent crime rates. During the year, violent crimes per 100,000 population reflected a modest increase while property crimes declined slightly. The Patrol Availability Factor (PAF) goal for the year was 39.56%. The actual PAF for the year was 40.83%. The better than anticipated PAF resulted from fewer police officer vacancies during the year, the return of 30 officers called to active military duty, and a 2% reduction in calls for police service. As part of a joint City-County project funded by the Local Law Enforcement Block Grants, the Police Department established a gang detail that works with various County agencies to proactively address gang issues.

The improved Dispatch Facility, constructed in 2000 and funded with 1998 Certificates of Obligation, will accommodate the requirements for a new public radio system. Currently in the final stage of field-testing, the new radio system is scheduled to become operational in the first quarter of 2004.

The 1999 Bond Program earmarked \$17.4 million for three Vision 2001 technology systems: Field Entry Reporting, Optical Disk Storage and Retrieval, and Supplementary Report Management System. This "Public Safety Integrated Technology System" will provide a comprehensive information management system to increase police officer and detective effectiveness while enhancing customer service. The system will enable officers to enter reports from the field as well as improve the filing, preparation and storage of important case information.

The Police Department currently has a contract with Open Systems Group for the development of a software base for this system. In fiscal year 2003, \$3,610,127 was budgeted for this project. This fiscal year, servers were purchased to run the system and the Automated Mugshot System was upgraded. The entire system is estimated to be complete in August 2004.

1999 General Obligation Bonds totaling \$3,009,000 were allocated to Police Substation Expansion Projects for North, Northwest, South, East, and West Substations. In fiscal year 2003, \$1,140,000 was budgeted for the East and Northwest Substation expansion projects, which continue as scheduled. Construction of the North, South and West Substations was scheduled to be completed in December 2003. The East and Northwest Substations will be complete in March 2004.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety (Continued)

In fiscal year 2003, the Police Department continued to provide and improve citizens' convenient access to information and investigative services at Police Substations through enhanced data availability on the Department's Website. Police reports are available to the public at the Police Headquarters Records Office and at the four City of San Antonio Community Link Centers.

The City continues to promote and provide for its Public Safety infrastructure by allocating funding through the budget process for police, fire and Emergency Medical Service (EMS). As of September 30, 2003, Public Safety Infrastructure included 6 police stations as well as 48 fire stations which house 48 engine companies, 19 truck companies, 8 brush trucks, 8 Fire command units, 5 EMS command units, 26 full-time EMS units and up to 9 peak period units per day. In addition to the aforementioned deployment of personnel, the Fire Department staffs a Fire Station located at the San Antonio International Airport, which responds to all incidents that occur within the airport boundaries.

With regard to Fire and EMS services, fiscal year 2003 included the continued implementation of the Fire Department Master Plan, a five-year rolling plan of comprehensive improvements targeted to enhance services provided such as Emergency Management, Fire Suppression, Fire Prevention, and Emergency Medical Services. Improvements implemented include an addition of nine staff positions, the continued construction and renovation of various fire stations and the training academy, and the continuation of the fire department's First Responder program. The First Responder program is part of a Fire Department initiative to increase the useful life of the more expensive firefighting apparatus and to provide initial patient care before EMS units arrive. The department also continued to improve technology and equipment enhancement upgrades related to Laptop Mobile Data Terminals (LMDTs).

Parks and Recreation Department

As of September 30, 2003, the City's Parks and Recreation infrastructure included 192 neighborhood, community and large urban parks, numerous sports complexes, 26 recreation centers, 23 swimming pools, and other special facilities, such as the River Walk, Botanical Gardens, Tower of the Americas, Spanish Governor's Palace, Market Square, and La Villita. The total park area covers 14,509 acres. During fiscal year 2003, approximately 36 Parks and Recreation capital improvement projects were completed at a construction cost of over \$7.9 million, and an additional 78 Parks and Recreation capital improvement projects were under construction, bid, or design at the end of the fiscal year.

On May 6, 2000, San Antonio voters approved the collection of an additional 1/8 cent sales and use tax aggregating up to \$65 million to purchase and develop as appropriate; (a) large tracts of parkland containing sensitive natural areas over the Edwards Aquifer (\$5 million), (b) linear tracts of land for greenway development along Leon Creek and Salado Creek (\$20 million), and (c) a 10% operations and maintenance endowment for the Edwards Aquifer Parkland. The parks proposal was the only one of four ballot issues presented to voters on May 6, 2000 that was approved, and will be funded through a temporary 1/8 cent increase in San Antonio's sales and use tax. It is anticipated that the \$65 million will be remitted to the City by July 2004.

Planning Department

Planning Department staff began the Southside Balanced Growth Initiative during the 2002 fiscal year. The focus of this initiative was an 83.6 square mile area located 7.5 miles south of downtown. An area of approximately 57 square miles was annexed for limited purposes to extend land use and health and safety regulations to the area. The primary goal of this initiative is to reverse the trend of disinvestments in the southern sector and encourage the balanced growth of San Antonio. This initiative will establish a growth policy for South San Antonio that seeks to develop the area into an integral part of the City and create an overall scenario of sustainable development. To that affect, new and progressive zoning districts were introduced and adopted by City Council.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)

Additionally, this effort seeks to achieve the goals and objectives of the 1997 Master Plan, the 2001 San Antonio Housing Master Plan, and the Community Revitalization Action Group (2000) by utilizing Smart Growth Principles. Through this initiative, the City of San Antonio will:

- Encourage the development of attractive, sustainable neighborhoods that are pedestrian-oriented and support a mix of uses
- Provide a range of quality housing options
- Protect natural resources and open space
- Support walking, cycling, and bus/rail transit alternatives to driving
- Revitalize and support existing communities
- Generate job opportunities
- Promote quality schools
- Build on existing and planned assets and employment anchors
- Attract investors and encourage development by making investing easier and profitable
- Reduce infrastructure costs by developing closer to the urban area and coordinating development infrastructure

With the advent of a Toyota Manufacturing plant in the area, the prospect for attracting and increasing the number of industrial and commercial uses will improve. Coupled with the City's initiative, attractive and progressive zoning districts provide direction and create certainty for future investors and developers in the area.

The City added two new Historic Districts, bringing the total of Historic Districts in San Antonio to twenty-one, and expanded the boundaries of two of our existing Historic Districts. A recent study of the Economic Impact of Historic Designation in San Antonio by Rutgers University showed that Historic District designation increased property values 18% over the normal inflation rate compared to neighborhoods of similar character. Currently, one additional neighborhood is in the process of designation. We have also designated thirteen new Local Landmarks.

During the past year, the Alamo Viewshed was adopted by the City Council. The Viewshed limits the height of new buildings behind the Alamo. This height limitation will forever preserve the view of clear sky behind the Alamo.

The Planning Department is also working on an architectural survey of the original thirty-six square mile city limits, which includes 62,000 buildings. The survey utilizes volunteers from neighborhoods, advocacy groups, and local schools. To date, over 6,000 properties have been surveyed and a number of potential new Local Landmarks and Historic Districts have been identified.

In accordance with the Community Building and Neighborhood Planning Program, staff undertook comprehensive planning for neighborhoods and communities. Plans, in addition to the Southside Initiative Community Plan, which was adopted in fiscal year 2003 by City Council, included the Huebner-Leon Creek Community Plan and the Westfort Neighborhood Plan Update. The Arena District/Eastside Community Plan was approved by the Planning Commission in September, and was considered by City Council in November 2003.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)

The Neighborhood Improvement Challenge Program (NICP) provides neighborhood-based organizations the opportunity to implement small, public improvement projects in partnership with private groups. In fiscal year 2002, the NICP awarded a total of \$161,696 to 107 projects ranging from landscaping, murals, park enhancements, and special topics series that include newsletter design, advertising, promotion and distribution. In fiscal year 2003, staff coordinated with neighborhood groups to finalize and implement these projects. To date, 40 Learning Fund participants attended membership drive classes and sponsored a membership recruitment event, 672 trees were planted, and 9 Project Fund projects were initiated that will be matched privately with \$34,790. Although the Neighborhood Improvement Challenge Program was not funded for fiscal year 2003, carry forward funds will enable the scheduling of additional special topic series workshops.

As part of the implementation of the Community Building and Neighborhood Planning Program (CBNP), three neighborhood plan projects were initiated in 2002 and implementation efforts continued in 2003. These include the Hays Street Bridge Rehabilitation project, the Austin Highway Hazard Elimination Safety Program (HESP) and the Olmos Creek Greenway project.

The Hays Street Bridge Project was awarded \$2,879,293 through the TEA 21 enhancement program in 2002. In an effort to raise funds for the City's match, the Planning Department will continue its involvement to coordinate with the citizen committees and to assist with public involvement for the project.

Through a Hazard Elimination Safety application submission for TEA 21 funds, \$475,000 was awarded to the San Antonio Texas Department of Transportation (TxDOT) district for the construction of medians on Austin Highway from Eisenhower to Rittiman. In fiscal year 2003, the Planning Department, Neighborhood Action Department and the Public Works Department coordinated the preliminary design and public involvement process with TXDOT. TXDOT has initiated the design and development of the project.

In conjunction with the adoption of the North Central Neighborhoods Community Plan, a resolution was adopted by City Council to authorize the San Antonio River Authority to work with the U.S. Army Corps of Engineers (USACE) to initiate a feasibility study of the southernmost three (3) mile section of Olmos Creek to determine if the project qualifies for Section 206 "Aquatic Ecosystem Restoration" funds. If it qualifies, this could result in additional federal funding for environmental restoration and passive hiking trails. A 35% match (cash or in-kind) would be required should the city decide to participate. A preliminary estimate by the USACE for the city's match as of October 2002 is \$537,585 (\$71,000 in-kind and \$466,585 cash) for a total project cost of \$1,535,960. In 2003, the Planning Department coordinated with the USACE, the Parks and Recreation Department and the San Antonio River Authority to develop final estimates. Voters in the 2003 Bond election approved the local match for the project.

In December 2002, the Corridor Overlay District enabling ordinance was adopted by City Council. In May 2003, the first gateway corridor, the Hill Country Corridor on IH10 West, was also adopted by City Council. Subsequently, staff initiated work on the development of the IH35 North gateway corridor. Additionally, two Neighborhood Conservation Districts (NCD) were adopted: the S. St. Mary's/South Presa NCD and the Alta Vista NCD. Staff also initiated work on the development of NCDs for the Ingram Hills and Whispering Oaks neighborhoods. Both the corridor overlay district and the neighborhood conservation district provide additional development standards to promote community character.

Library Facilities

The San Antonio Public Library System consists of a Central Library facility, 18 branches, 1 joint-use facility at the Ronald Reagan High School (a unique partnership between the City and North East Independent School District), and 1 bookmobile. The Central Library offers services seven days a week and four evenings a week.

ECONOMIC OVERVIEW (Continued)**Infrastructure Development (Continued)**Basic Infrastructure Components (Continued)Library Facilities (Continued)

Nine branch libraries are open seven days a week and three evenings, and nine branch libraries are open six days a week and four evenings. The public library at Ronald Reagan High School is open after school hours and evenings four days a week and on Saturday and Sunday during the day. The Library's operating schedule is designed to ensure that branch libraries throughout the city provide satisfactory library access and usage for families, students, and neighborhood residents.

Over 3.6 million people utilized the Library's collection of print and non-print resources in fiscal year 2003. Citizens borrowed 4% more materials and asked 9% more reference questions than in the prior year. Usage of the Library's website, including access to full-text electronic information databases increased 69% over the previous year. Over 149,000 citizens attended library programs designed for a variety of audiences including children, families, and adults.

In support of the City's initiative to create an educated workforce and promote a healthy business climate, the San Antonio Public Library offers information resources for small businesses in branches located throughout the City's empowerment zones. These resources were developed with the assistance of the Institute of Economic Development at the University of Texas at San Antonio, the City Economic Development Department and the Economic Development Foundation.

Airport System

The City's airport system consists of the San Antonio International Airport and the Stinson Municipal Airports, both of which are owned by the City and operated by its Department of Aviation.

San Antonio International Airport is located on approximately 2,600 acres of land that is adjacent to Loop 410 freeway and U.S. Highway 281 and eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and is able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24-second level gates. Presently, domestic air carriers providing service to San Antonio include America West, American, Atlantic Southeast, Comair, Continental, Continental Express, Delta, Midwest, Northwest, Southwest, and United. Mexicana, AeroLitoral and Aeromar are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 80% of capacity. A variety of services are available to the traveling public furnished by approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the San Antonio International Airport and Stinson Municipal Airport.

San Antonio International Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specially designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics (EGL) constructed a processing facility in the year 2000 and UPS is in the process of expanding its facilities. Additional land has been allocated to accommodate future growth and an expansion of facilities is currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2002 totaled 133,463 tons.

San Antonio International Airport operates and maintains approximately 6,100 parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)

parking will exceed the available supply by the end of 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements with the additional terminal facilities. The design contract for the parking improvements is expected to be awarded in early 2004, while construction of the new parking facilities is anticipated to start by 2005.

A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which was estimated to cost \$28 million, included a completely new appearance to the building interiors and provided state of the art terminal amenities. Included in the terminal renovations was a complete redevelopment of the concessions program that provided high-quality retail and food establishments, offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 42 new concession contracts were awarded. The new concessions program is also projected to increase revenues to the Airport from \$3.2 million in fiscal year 2002 to \$4.8 million in fiscal year 2004. On a per-boarding-passenger basis, concession revenue is expected to increase from \$.99 in fiscal year 2003 to \$1.31 for fiscal year 2004.

The Airport Revenue News' 2003 Best Concessions Poll recognized the City's Aviation Department for its new concessions program. The Airport's concession program was voted for by a panel of judges in the airport category with less than 4 million enplanements. San Antonio International tied with Norfolk International Airport for 1st place for the "Airport with the Most Innovative Services" and received 2nd place for the airport with the "Best Concessions Program Design." This award is given to airports that have the most accessible and visible concessions program to a majority of passengers, a layout that promotes a retail-friendly environment, reflects a distinctive theme, and has an overall attractive appearance.

The passage of the Aviation Security Improvement Act in November of 2001, created the Transportation Security Administration (TSA). The City's Aviation Department has worked closely with the TSA to forge a new higher level of security for the traveling public. Aviation Department staff and the airlines assisted the TSA in transitioning to fully federalized security checkpoints. The process began in September 2002 and was completed on December 31, 2002. Implementation of the new regulations included the installation of explosive detection baggage screening equipment to meet the mandated 100 percent baggage screening process on December 31, 2002. TSA employs about 500 individuals at San Antonio International Airport to meet the new federal security requirements.

The Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the terminals. This was necessary in order to meet the required December 31, 2002 deadline. However, the Aviation Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The Aviation Department also utilizes three Explosive Detection Canine teams. The officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in baggage pickup areas, concourses, parking, cargo and aircraft. This program is supported by the TSA with reimbursement to the Airport at \$120,500. SAT's coverage is provided in addition to canine support received from San Antonio Police Department and Bexar County Sheriff's Office.

The City is planning the implementation of a ten year Capital Improvement Program (CIP) pursuant to the Master Plan for San Antonio International Airport. The CIP addresses both terminal and airfield improvements. The capital program includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and the

ECONOMIC OVERVIEW (Continued)**Infrastructure Development (Continued)**Basic Infrastructure Components (Continued)Airport System (Continued)

extension and improvement of two runways, along with supporting taxiways and aircraft apron. The Airport System's overall CIP for fiscal years 2002 through 2011, which may change as circumstances require, is estimated to be \$425.6 million. The CIP includes capital improvements as follows: \$124.2 million for terminal related improvements, \$51.8 million for parking improvements, \$19 million for roadway improvements, \$177.1 million for airfield improvements, \$8.2 million for cargo facilities, \$6.7 million for aircraft apron, \$5.9 million for Stinson Airport improvements, and \$32.7 million for other improvements.

The City plans to pursue a phased approach in the construction of the improvements, whereby capacity is increased to coincide with demand. The City also desires to limit, to the extent possible, the impact on airline rates and charges. The City, as the owner and operator of the Airport, has received authority to "impose and use" Passenger Facility Charges (PFC) at the \$3.00 level, which became effective November 1, 2001. The Federal Aviation Administration (FAA) issued a Record of Decision approving the City's PFC application on August 29, 2001. The CIP also anticipates the approval of a Letter of Intent with the FAA for the commitment of future grants as possible funding sources for some of the planned capital improvements.

During 2003, the first steps were taken to bring the City's \$426 million Capital Improvement Program to fruition. The City's consultant, Marmon Mok/Gensler, validated the 1998 Airport Master Plan and completed a programming study. This process included development of a layout of proposed additional terminal and roadway facilities needed to meet the projected passenger growth through 2015. The study also included a review and mapping of the ultimate terminal and airline gate expansion for future development as growth occurs at the Airport. Schematic designs were completed, along with the programming study, which will be used by the architectural team of 3D International/Corgan Associates, Inc., to layer in the exterior and interior structural design features in the ticketing, concourse, and bag process areas. Other architects were also selected to start the process of designing and constructing a new 3,000-space parking garage and a freight facility. The first phase of construction, which includes a new concourse to replace Terminal 2 and roadway improvements, as well as an expansion to the parking facilities, is expected to start late in 2004.

Stinson Municipal Airport, established in 1915 and named for the Stinson family, aviation pioneers, is one of the country's first municipally owned airports. During 2001, a process was initiated to develop a new Airport Master Plan for this Airport, which was completed 2002. The Master Plan provides recommendations for airfield and facility improvements needed to meet growing operation demands. The planning effort will facilitate the development of the Airport to expand its role as a general aviation reliever to the San Antonio International Airport. TxDOT accepted the Master Plan in 2002 and has recommended \$16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA, and the Airport. A Target Industries Analysis was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be good prospects for locating at the Stinson Municipal Airport.

Since 1998, flight operations at Stinson have increased by 143%, while Stinson has also experienced over a 100% increase in the number of based aircraft at the airport. Because of its growth, the Texas Department of Transportation Aviation Division has approved grant funds for various projects at Stinson. With Aviation Department funds, Stinson has planned to build a new facility that will give the Airport additional administrative offices, classrooms, and conference rooms to accommodate and attract new businesses. The Texas Department of Transportation Aviation Division has named Stinson Municipal Airport "2003 Reliever Airport of the Year".

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

City Public Service

City Public Service (CPS), owned by the City, provides electric and gas services to San Antonio and surrounding areas. As of December 2003, CPS owned and operated 16 electric generating units capable of producing 4,356 megawatts (MW) of power from natural gas, oil, and coal. CPS also owns 700 MW of nuclear generating capacity in the South Texas Project plus the rights to another 160 MW of wind generation, which brings the total CPS capacity to 5,216 MW. During fiscal year 2003, CPS's generation was obtained from the following sources: coal, 46%; nuclear, 27%; and natural gas, 15%. Wind energy and purchased power accounted for 12%. As the second largest municipally owned utility in the nation, CPS serves more than 604,108 electric customers throughout its 1,566 square-mile service area, and about 310,316 natural gas customers in the urban San Antonio area.

To the citizens' benefit, CPS rates are lower than any major Texas city and among the lowest in the nation. The average CPS residential gas and electric bill ranked second lowest among the 20 largest cities in the United States for the twelve months ending January 2003. CPS remitted over \$204 million to the City in fiscal year 2003. Representing a steady and increasing source of revenue for the City, this return helps keep property taxes low and enhances the funding of many city services offered to residents. As of December 2003, CPS maintains a AA+ rating by Standard & Poor's, which makes CPS one of the highest rated publicly owned utilities in the nation.

San Antonio Water System

The City's waterworks system, initially acquired in 1925, was included in a consolidation in 1992 of all City owned water related utilities including water, wastewater, and water reuse systems. This consolidation created the San Antonio Water System (SAWS), which now provides water and wastewater service to San Antonio and certain surrounding areas. SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City of San Antonio and Bexar County, which totals approximately 1.4 million residents. Currently, SAWS provides water and wastewater service to 305,050 and 338,783 customers respectively, including residential, commercial, industrial and irrigation customers. SAWS has 4,229 miles of water mains in place and 5,047 miles of wastewater mains in place.

Housing and Neighborhood Development

The City's administration of housing and neighborhood development initiatives are being accomplished through programs such as the Housing Master Plan, Neighborhood Sweeps, Neighborhood Commercial Revitalization, Down Payment Assistance, Owner Occupied Rehabilitation and Reconstruction, Single-Family/Multi-Family Rental Rehabilitation, Affordable Showcase of Homes, Tax Increment Financing, and the Housing Asset Recovery Program. These Programs are managed through the Neighborhood Action Department.

In support of the Mayor and City Council's community revitalization efforts, the Neighborhood Action Department has defined a strategy for data gathering efforts to aid in the development of a comprehensive investment plan for the Community Revitalization Action Group (CRAG) target area, which encompasses the original 1940 city limit boundaries. The City Council continues to prioritize inner city revitalization efforts by targeting programs and neighborhood services provided in the CRAG target area.

Housing Asset Recovery Program

In an innovative approach to revitalization, the Neighborhood Action Department partnered with Fannie Mae in utilizing a line of credit to rehabilitate valuable housing stock and thus create affordable housing opportunities for low to moderate-income families in San Antonio. Since 2001, the Housing Asset Recovery Program (HARP) takes a non-productive, residential structure and creates a useful asset for the community. Individuals, non-profit organizations, corporations, or any owner of a single-family home, residential lot, or tract of land can donate or sell the asset to the City. Beyond the flood recovery program, in most instances, the home can remain on the existing lot and be rehabilitated on site. In other cases, such as in school expansion projects, a home may need to

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Housing Asset Recovery Program (Continued)

be relocated to another city-owned parcel of land. To finalize the HARP transaction, the City refers the “project” to Fannie Mae for rehabilitation and sale. Once the home has been renovated, a licensed real estate broker lists and sells the property on behalf of the City. Net proceeds from the sale of the home are returned to the City for reinvestment in affordable housing and to replenish the line of credit in order to acquire additional projects.

Housing Master Plan

In June 2001, the City was presented with a Housing Master Plan completed by J-QUAD & Associates, LTD, SA Research Corporation, and McConnell, Jones, Lanier and Murphy, LLP. The Master Plan is a result of recommendations found in the Community Revitalization Action Group Report and the Housing Performance Review. Both documents indicated a need for an overall plan to guide housing development in the City.

The Master Plan identifies and provides a series of recommendations for housing initiatives, processes, and comprehensive development for the City. The Master Plan also provides a baseline and understanding of current conditions found in San Antonio’s housing market, as well as presents a definition of continuum of care and affordable housing. The Master Plan identifies a series of recommendations concerning the retooling of programs and processes to enable implementation of the recommendations defined in the plan. These recommendations are currently under review by the City Council Urban Affairs Committee.

Neighborhood Sweep Program

The Neighborhood Action Department coordinated and delivered 24 neighborhood sweeps during fiscal year 2002. Over the last five years, more than 100 communities have been recipients of this comprehensive service delivery program. The neighborhood sweeps represent an inclusive package of city services, such as code investigations, brush collection, street/pothole repair, graffiti removal and vacant lot abatement, that are delivered to a 55–60 block area over a period of two weeks. The program is designed to accomplish both short-term “clean-up” goals and long-term community development goals including accessing safe, decent housing, and assisting special needs populations.

Neighborhood Commercial Revitalization

The Neighborhood Commercial Revitalization (NCR) Program was created to bring renewed interest and investment to San Antonio's older commercial corridors. The NCR Program is currently working in eight target areas throughout the City. The NCR Program provides financial and technical assistance to community based non-profit organizations that undertake a full-time revitalization effort. The NCR Program is based on the MainStreet model of identifying and marketing the competitive advantages of these business districts in the hope of attracting private investment in new and existing businesses, thus creating job opportunities and enhancing the quality of life in the surrounding neighborhoods. Collectively, NCR target areas have realized more than \$39.6 million in private investment and created/retained more than 1,018 jobs. During fiscal year 2003, an assessment of the NCR Program was performed to pursue alternatives for greater program success and productivity, as the participants continue to implement strategies that will support inner city revitalization. This assessment will be presented to the City Council in early Spring 2004.

Down Payment Assistance Program/Homebuyers Club Program

In fiscal year 2003, the Neighborhood Action Department provided 89 families with down payment and closing cost assistance toward their purchase of a home. The Department will continue to provide up to \$8,000 for families wishing to purchase single family homes in the San Antonio area. In addition, in partnership with the San Antonio Housing Trust Foundation, the City received a \$25,000 grant to provide homebuyer counseling activities and support the City’s Homebuyers Club Program, which prepares families for homeownership.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Owner Occupied Rehabilitation & Reconstruction Programs

The Neighborhood Action Department administers the Owner-Occupied Rehabilitation and Reconstruction Program that provides loans and grants for rehabilitation or reconstruction of housing units for qualifying families. The Program is funded through the US Department of Housing and Urban Development, which provides Community Development Block Grant (CDBG) and HOME funds. The Department works closely with the families to determine rehabilitation and/or reconstruction needs based on assessments of the housing structure. The Department is responsible for providing oversight and monitoring of construction activities for the projects. All applicants must meet eligibility and income qualifications.

Rental Rehabilitation Program

The Neighborhood Action Department's Rental Rehabilitation Program provides funds for both single-family and multi-family rental units. It has been noted that much of the rental housing stock within the inner city is substandard and in need of rejuvenation; however, there are numerous challenges associated with ensuring revitalization such as historic integrity, environmental hazard, deferred maintenance, and elderly property owners. Funds for this program are made available through the US Department of Housing and Urban Development providing CDBG and HOME funds.

The Rental Rehabilitation Program provides loans and requires that units be made available to families earning at or below 80% of the area median income. The Housing Policy Guide amended the guidelines for this Program, maximizing the assistance provided to be no greater than 50% of the total rehabilitation costs for a project.

Tax Increment Financing

The City Council adopted new guidelines and criteria in October 2002 for the City's Tax Increment Financing (TIF) program. The public purposes of TIF projects include the redevelopment of blighted areas, construction of low and moderate-income housing, provision of employment opportunities, and improvement of the tax base. This program provides a means of presenting incentives that carry real costs by paying public improvement costs from the increased tax revenues generated by the project itself. The new guidelines were approved and provided the ability to facilitate higher standards of development for TIF projects. In May 2003, there was a City Council request to review the guidelines recently approved. The staff held numerous community and stakeholder meetings to address issues identified in the City Council request and new guidelines were adopted by the City Council in January 2004.

Neighborhood Development/Partnerships

Neighborhood Development/Partnerships are an innovative strategy being utilized to tackle inner city revitalization through private development. CDBG and HOME funds have been allocated as seed money to stimulate development in urban neighborhoods. The City released a Request for Proposals to solicit qualified developers to assist with revitalization efforts in a targeted neighborhood in Council District 4 through rehabilitation and construction of new infill housing. The groundbreaking for this project was held in 2003. This pilot program will stimulate increased activity in neighborhoods that have not seen new development in years.

Department of Community Initiatives

The Department of Community Initiatives (DCI) serves as the primary human development agency for the City. In this role, DCI coordinates community-based human investment strategies designed to strengthen families, develop human capital, and provide a community safety net. Additionally, DCI acts as a vehicle for collaboration between public and private organizations. This focused facilitation strives to leverage and maximize resources toward significantly improving the community's human development outcomes. In fiscal year 2004, DCI will

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Department of Community Initiatives (Continued)

invest almost \$130 million in human development. The DCI budget supports the City's strong commitment to strengthening long-term economic viability in San Antonio through the development of human capital.

DCI supports human development efforts at all stages of life, beginning with early childhood development and continuing through adult education. DCI carries out these human development strategies primarily through early childhood education, kindergarten readiness, youth development, character skills development, college scholarships, preparation for transitional employment, long-term job training and adult literacy services, and asset building and asset protection strategies.

DCI's early childhood education goal is to provide high quality and affordable childcare in order to improve workforce participation and prepare children to enter school ready to succeed. Through Head Start, the Child Care Delivery System and local initiatives, the Department will provide childcare to over 16,000 children of low-income parents participating in workforce activities or participating in workforce development activities.

The City provides \$11 million in In-Kind contributions to the Head Start program to support this early care and education goal. Additionally, the City certified almost \$4.3 million in local expenditures that attracted \$6.4 million in federal matching dollars to further underwrite the City's aggressive early care and education initiative.

Over the past four years, the City has drawn down proportionately more federal matching early childhood funds than any other Texas community. The Kindergarten Readiness Project, operating in 19 elementary school neighborhoods, strengthens families by empowering parents to serve as their child's first teacher. DCI continues to provide "Early On", a multi-media campaign to disseminate the Kinder Readiness guidelines. Last year, the Kinder Readiness Project trained more than 150 pre-school educators and 80% of children assessed displayed mastery of the Kinder Readiness guidelines.

The Youth Services Division addresses youth development through juvenile justice and delinquency prevention programs. By using model programs, such as the Neighborhood Conferencing Committees and Teen Court, the Division has significantly reduced the recidivism rate for those youth appearing before the Municipal Court Judge. Youth in the CASASTART Program, for example, have shown improved grades, improved attendance, and reduced contact with authorities. The school district administration has attested to an improved school environment as a result of the Division's presence on campus. More than 5,200 youth received prevention and early intervention services this year.

The Department is committed to raising the education and skill level of residents and offers coordinated and comprehensive education and training to assist youth and adults in achieving self-sufficiency. Next fiscal year we estimate that nearly 2,000 individuals who participate in DCI's education or training programs will become employed and more than 60% will be paid at or above a living wage. More than 3,600 DCI participants will enroll in higher education, skill training or long-term job training.

The San Antonio Education Partnership (SAEP) encourages students to stay in school and advance to higher education by providing advising services, college preparation activities and scholarships to students who graduate with a 95% attendance rate and 80% grade point average. Annually, SAEP serves more than 25,000 students in grades 9 – 12 at fifteen (15) participating high schools. Since the program's inception, nearly 1,500 scholarship recipients have received their Associates or Bachelor's degrees from local colleges and universities.

The Youth Opportunity (YO) Program is designed to assist inner city youth with developing the necessary skills to become contributing self-sufficient members of the community. The goal of YO is to increase the long-term employment and education of youth who reside in the City's federally designated Empowerment Zone. This goal

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Department of Community Initiatives (Continued)

is achieved through education and job training programs while providing an array of supportive services. The YO program provides follow-up support to youth for a two-year period following placement in long-term employment and or education.

DCI's Literacy Services Division offers adult education services including GED preparation, adult basic education, English as a Second Language (ESL), and computer literacy. In addition, the Department has implemented a transitional jobs component in partnership with local employers to provide comprehensive career readiness and life skills training. It is estimated that more than 500 individuals attending literacy classes this fiscal year will obtain employment. Moreover, the Division's Better Career program will expand to all seven city operated learning centers and into the community as well.

During the past two years, the Division has implemented an English Literacy – Civics Education program at two of the Learning and Leadership Development Centers. Funded with a grant from the Texas Education Agency, more than 300 participants have completed the program, which familiarizes participants with local, state and federal governmental structures to become more involved in their community.

Funded primarily through the City, Project QUEST is a workforce development initiative that provides comprehensive training opportunities primarily to adults who lack the educational, occupational, and life skills necessary to secure well paying employment. QUEST provides support for short-term training, customized, and long-term job training in the City's targeted demand occupations. Since the program's inception in 1992, QUEST has provided training opportunities to approximately 2,500 participants.

DCI continues to strengthen the Family Economic Success Program to assist low-income working families transition out of poverty into economic self-sufficiency. This program offers asset-building strategies including Volunteer Income Tax Assistance (VITA) and Individual Development Accounts (IDA). Last year, DCI operated 12 tax assistance sites and prepared more than 9,500 returns for low-income working families, which returned more than \$13 million to residents of the community. DCI also serves more than 300 families through IDA. Through financial literacy instruction and matched savings accounts, working families will save for the purpose of education, homeownership, and transportation. DCI expects to enroll an additional 250 families in IDAs in fiscal year 2004.

The Community Action Division (CAD) is the designated public community action agency for City of San Antonio and Bexar County that addresses the needs of the low-income residents by improving the conditions of poverty. Services include rental, transportation, utility, food, case management, counseling, information, and referral through a variety of funding sources.

CAD programs also provide emergency housing, transitional housing, and supportive services to homeless families and individuals. Additionally, the Success and Independence Program provides long-term supportive services to low-income participants. The Fair Housing Program is responsible for enforcing City and Federal fair housing laws and other services such as comprehensive housing counseling, reverse mortgage counseling, and mortgage assistance.

DCI's Elderly and Disabled Services Division (EDSD) provides essential, safety net services to the community's most vulnerable populations. EDSD offers senior nutritional services, senior transportation services, in-home personal assistance services, and resource access to elderly programs and services. In fiscal year 2004, the nutrition program plans to expand from 56 to 65 congregate nutrition sites and will serve approximately 990,000 meals. In conjunction with Project HOPE, EDSD anticipates providing a minimum of 3,500 needy seniors more than 1,800,000 pounds of food during the 2004 fiscal year. To address an increasing need for services, EDSD

ECONOMIC OVERVIEW (Continued)**Infrastructure Development (Continued)**Basic Infrastructure Components (Continued)Department of Community Initiatives (Continued)

now staffs an Elderly Resource & Referral “one-stop” center that operates in direct coordination with the newly created Office of Elderly Affairs.

The Community Centers Division operates three Community Centers located in the west, east and southwest sectors of the city. Services provided by tenant programs in the three centers include Head Start, youth counseling, youth and senior recreational activities, emergency assistance, parenting program, seniors nutrition program, Code Compliance offices, and a Metro Health clinic. One of the centers is also used as an emergency shelter during city or regional disasters.

Strategic partnerships can demonstrate a high level of impact and improvement in our community. Some of the Department’s strategic partners include but are not limited to Bexar County school districts, childcare centers, UTSA, and community based organizations including Family Services Association, KLRN, AVANCE, YMCA, the United Way, Annie E. Casey Foundation, Alamo Workforce Development, Inc. (AWD), Smart Start, employers, and other community and faith based organizations. DCI also staffs numerous boards, commissions and task forces to include: Community Action Advisory Board, Commission for Children and Families, Literacy Commission, Youth Commission; Joint City/County Commission for the Elderly, Mayor’s Task Force on Homelessness and Hunger, and the Day Labor Task Force. DCI’s continued strategic partnerships and public accountability will continue to be the key to successfully raising the community’s education and skill levels and improving quality of life.

Information Technology Services Department

The Information Technology Services Department (ITSD) provides information technology (IT) services, 24 hours a day, 7 days a week, to all City departments and other agencies through information and technology sharing agreements. The Information Technology Vision of the City is to provide business solutions that will enhance the City’s effectiveness in serving its employees, citizens, businesses and visitors through the successful use of IT. The focus of ITSD’s mission includes: Information Management, Business Applications, Geographic Information Systems, Computing Platforms, Technology Management, and Enterprise Resource Management (ERM). The City is constantly striving to take advantage of advancements in technology to provide the tools needed to respond effectively and efficiently to the increasing demands for service from its citizens. Demands for the ability to conduct business electronically, allow for faster response time, increase participation and involvement in government, along with economic pressures to do more with less, are major factors that affect the use of technology in the City.

As the City continues its Security Initiative to institute new security policies, guidelines and operating procedures for all City systems, its goal is to protect the City’s infrastructure by reducing risks, complying with laws and regulations, and ensuring business continuity, information integrity and confidentiality. This involves supporting the implementation of HIPAA compliant guidelines and solutions for end-users. The City is involved with Homeland Defense and Emergency Management Technology Support Systems and with the Dark Screen Project initiated by Representative Ciro Rodriguez. Dark Screen is a consortium of local, county, state and federal entities involved in preventing cyber terrorism and has tested the response capabilities of the City and the surrounding regions to a cyber-terrorist attack. Dark Screen operations will recommend and develop methods for industry, law enforcement, government, and academia to cooperatively protect critical infrastructures, and will serve as a model for other cities in preparing for a cyber-terrorist attack or similar event. ITSD continues to update its business continuity plans and to monitor, maintain, revise, and disseminate current security policies, procedures, and administrative directives to ensure they are current.

The San Antonio Community Portal provides Internet access to enhance the City’s effectiveness and efficiency in serving its employees, citizens, businesses and visitors. The City’s website, www.sanantonio.gov, strives to

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (Continued)

seamlessly extend services and improve communications between the City and the Community-at-large. During 2003, the following online services were added to the San Antonio Community Portal to provide San Antonio stakeholders one-stop access to government information and services: online permitting, scheduling of building inspections, bond election information, dynamic job announcements, dynamic RFP system, Online Grant Application System, Escrow Balance Look-up System, as well as the Incentive Scorecard System.

The City's Personal Computer (PC) Lease Program, known as Seat Management, provides for a full range of computer services at each employee's desk or "seat". Seat Management is an effort to stabilize the desktop computing environment and to improve technology performance, reliability, and service across departments. This program will integrate with current ITSD best practices to establish a standard desktop program for City PCs that will provide a uniform operating platform, consistent support and functionality for end-users.

ITSD Customer Service is implementing Customer First practices by improving communication with customers. An e-mail notification of new tickets along with a satisfaction survey is being implemented and reports of Service Level Agreement performance are being published on a website. Trouble tickets can be entered on the same website. New training classes for professional growth of ITSD and City staff continue to be developed.

The GIS Division serves as the coordinating body for mapping and data development for departments within the City of San Antonio. The GIS Division is committed to the development of accurate and timely data about the City of San Antonio and the surrounding region. Each department utilizes GIS data as applicable in order to provide a continuing level of service to the citizens of San Antonio.

Electronic Document Management and Automated Records Management expand and enhance the management of documents for the City. These systems include Enterprise-wide scanning and imaging solutions, contract management and imaging, and the integration of automated workflow. To facilitate Texas State Retention Schedule requirements, all disposition instructions and over 50,000 physical entries have been integrated into a single record management architecture.

Knowledge and Information Management continue to support the collection, analysis, organization, sharing and employment of information critical to the attainment of City goals. Implementation of the SAP Business Warehouse and Crystal Reports will provide convenient access to City data and statistics.

The joint effort between the City and the County to implement a new 800 MHz trunk radio system is nearing completion. New MA/COMM portable radios are being distributed and mobiles are being installed in vehicles for various City departments, including Police, Fire and EMS, and the County Sheriff's Office. The target date for completion of this project is the first quarter of 2004. The new radio system will serve the City of San Antonio Police Department, the San Antonio Fire/EMS Department, the Bexar County Sheriff's Office and other County law enforcement agencies, and both City and County non-public safety agencies.

The Core Data Network Infrastructure will continue to be improved by the implementation of new technologies with enhanced reliabilities at City locations to provide better ways to access City information. Network enhancement with 100+Mb hubs and switches and full gigabit services will occur at key locations. SONET-based technology will expand through virtual routing. Shared network environments will be replaced with switched services to improve bandwidth. Wireless technology will be used in remote City offices where line of site is available. Currently, fiber projects include expansion to the Southeast Service Center and to the San Antonio International Airport. Negotiations are currently underway to utilize the Time Warner and Grande

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (Continued)

Communications franchise agreements for Road Runner and expanded bandwidth services. All of these improvements to the core data network infrastructure will serve to support the Enterprise Resource Management initiative.

Enterprise Resource Management Project

With its expected completion in Summer 2005, the Enterprise Resource Management Project (ERM) will make San Antonio's municipal government one of the most technologically advanced. ERM is an enterprise architecture project, being rolled out in eight phases, that will improve the delivery of services to citizens and other customers through a Customer Relationship Management (CRM) component, along with reengineered business functions through an Enterprise Resource Planning (ERP) component and a Land & Development Services component that will more effectively meet the needs and timelines of developers, builders and others. ERM will also enable E-government services. The implementation of the first ERM phase, last year, has already put certain development services on-line, including some permitting and the scheduling of inspections. The business community is responding favorably to the first phase. Because ERM is a fully integrated system with a shared database, it will enhance the quality of data available across the organization for resource planning, decision-making and collaboration.

Code Compliance Department

The Code Compliance Department seeks to enhance neighborhoods and their citizens' health, safety, and general welfare through efficient and effective City code enforcement. This department also strives to promote a higher quality of life by promoting awareness and compliance with City Codes in order to stabilize and reverse deterioration of neighborhoods.

The department's fiscal year 2003 staff for code enforcement includes 68 Code Enforcement Officers, 10 Dangerous Premises Officers, and 10 Abatement Officers. Each Code Officer patrols the city in marked vehicles equipped with a computer laptop providing effective and efficient code enforcement activities. Monitoring vacant lots is an example of one activity that falls under this Department's jurisdiction of enforcement for improving the quality of life for the citizens of San Antonio.

Public safety is one of the City's major concerns in its enforcement of overgrown vacant lots. Abandoned properties, whether vacant lots or structures, present adverse conditions impacting the quality of life in the community. The Department recognizes these issues and is attempting to increase community awareness and voluntary compliance by encouraging and developing partnerships with neighborhood organizations, community groups, and local businesses to ensure a safer, cleaner, and more beautiful San Antonio.

If private property lots are not cleaned by their owners, the City hires a private contractor. Contracting with a small business to perform the cleanups helps stimulate the local economy, while accomplishing the department's objectives. The majority of these private contractors are small business operators and/or Historically Underutilized Businesses (HUBs). This business activity is an opportunity that allows small business owners to compete with larger businesses. In fiscal year 2003, \$341,177 was expended on vacant lot clean up through these contracts.

Medicine and Healthcare

The City is cognizant of the importance of, and continues to support, its medical infrastructure. The City is actively involved in promoting the industry, recognizing its significance to San Antonio and its citizens. Major medical research, manufacturing, training, and health care facilities located in San Antonio include the Southwest Biomedical Research Institute (high technology biomedical manufacturing), the University of Texas Health Science Center at San Antonio (medical school, dental school, nursing school, allied health sciences school), the

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Medicine and Healthcare (Continued)

University Health System, Wilford Hall Medical Center (United States Air Force), Brooke Army Medical Center (a world renowned burn treatment and research center), and the South Texas Medical Center. The Medical Center contains numerous hospitals, a specialized treatment center, and the renowned Cancer Therapy and Research Center which attracts patients nationally and internationally. In addition, Brooks City-Base is a major medical and environmental research facility of which the U.S. Air Force Medical Service is a major tenant.

The San Antonio Metropolitan Health District is the local public health agency for the City. It provides preventive health services, health code enforcement, clinical services, environmental monitoring, animal control, disease surveillance and control, emergency preparedness, health education, dental services, and is the local registrar of vital statistics.

Developmental Services

On April 14, 2003, the Development and Business Services Center (DBS Center) opened for business. More than 200 City staff members moved to the two-story, 75,000 square foot center located just minutes from City Hall with free on-site parking. City customers can access services offered by Development Services, Planning, Economic Development Small Business Services, Fire Marshal's office, Health Inspectors, and Public Works.

Right-of-Way Management.

A variety of other agencies also conduct business at the DBS Center including: City Public Service, San Antonio Water System, and BexarMet Water District. The co-location of these development-related services helped streamline the development process and provided a convenient location for the development community to conduct business.

In addition to moving to the DBS Center, Development Services Department designed and implemented new land development software to manage vital functions, including the issuance of building permits, trade permits and trade licenses, building plan review, and building inspection. The consolidation of data into one system allows Development Services Department to use the new software to better manage the flow of development services such as plan intake, plan review, permitting, and inspections. City staff, developers, builders, and other customers who require land development services are experiencing an enhancement in the delivery of these services. For example, a key enhancement is the City's new on-line permitting and inspection system. Within four months of implementing the system, 24 percent of all building permits were issued on-line and 14 percent of all inspections are scheduled using the Internet.

The Development Services Department also made investments in human capital by cross-training its staff to provide a variety of services for a true "one stop" experience when conducting business at the DBS Center. The department has separate staff for residential and commercial plan review and intake, and provides expedited reviews for smaller projects. Approximately 50 percent of all commercial plans are reviewed at the One Stop Counter in less than 10 days.

Contracting Initiatives

With the opening of the DBS, space in the Municipal Plaza Building was vacated. The Department of Asset Management, in conjunction with the City Architect's Office and the assistance of various other departments, developed a plan for the backfill of the vacated space. The focus of the plan has been to provide additional space for overcrowded departments, as well as the co-location of certain functions for efficiency and effectiveness. The following departments have moved into Municipal Plaza: Parks & Recreation administrative offices, Office of Management & Budget, Contract Services Division of the Department of Asset Management, and the Real Estate Division, Traffic Engineering, and Project Management Divisions of the Public Works Department.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Contracting Initiatives (Continued)

In July 2001, the City Council approved the creation of the Contract Services Unit, a division of the Department of Asset Management. This division has focused on creating and promoting City-wide standards and systems for improving the management of contracts through the development and implementation of: 1) standards for contract management, planning, and solicitation; 2) strategies to streamline contract negotiation and approvals, 3) rigorous monitoring practices, and 4) training programs for contract officers. During fiscal year 2003 the Contracting Policy & Process Manual was created. This Manual is a comprehensive guide outlining, step-by-step, contracting procedures from contract inception to completion. In addition, the Contract Services Unit provided contract training and certification to over 200 Certified Contracting Officers.

The Department of Asset Management, in conjunction with the Department of Economic Development and with the assistance of various other departments, developed the Incentive Toolkit. The Toolkit includes an inventory of available development incentives and outlines the criteria for fee reductions and waivers, which are administered by the Department of Economic Development through an online application.

Environmental Services Department

The Environmental Services Fund receives most of its revenues from the Residential Solid Waste Fee, Brush Fee, and the Environmental Fee as collected by City Public Service. Additional revenues to this fund are generated from Licensing and Permitting Fees, Mulch and Brush Disposal Fees, and Out of Cycle Collections. The fund supports both Environmental Management and the Solid Waste Divisions of the Environmental Services Department.

The Solid Waste Division is responsible for the collection of municipal solid waste generated by over 310,000 homes and businesses within the City of San Antonio. The primary services provided by the Solid Waste Division include: bi-weekly collection of residential garbage, weekly curbside collection of residential recyclables, dead animal collection, downtown night garbage collection, and the bi-annual collection of residential brush and bulky items. Other services include Out-Of-Cycle collection requests for brush and bulky items, neighborhood associations and civic groups support through the weekend Dial-A-Trailer program, and the Keep San Antonio Beautiful Association sponsorship. The Solid Waste Division also provides cleanups for special events, weather related emergencies, and high priority needs of the City.

The Environmental Management Division is responsible for ensuring City property and construction projects are in compliance with all federal, state and local environmental rules and regulations. This Division assesses and investigates the environmental conditions of land, air, and groundwater for the City. Other major responsibilities of the Division involve administering the City's Air Quality and Household Hazardous Waste (HHW) Programs, monitoring and maintaining the City's closed landfills, and overseeing or performing asbestos assessments and environmental remediation. This division also provides technical support for the City's efforts related to energy conservation and compliance with Senate Bill 5—State legislation requiring 25% reduction in energy consumption by City facilities over the next 5 years.

Public Works

The Public Works Department provides public services and infrastructure in a quality manner through the use of modern engineering and management practices. The department provides design, construction, and renovation of City buildings, streets and drainage facilities, and operates the traffic network.

The Capital Programs Division completed 46 street and drainage projects at a cost of \$65,088,444. Having completed almost 54 miles of reconstructed streets, these projects will minimize flooding, reduce the number of potholes, reduce traffic delays, and allow greater mobility. Additionally, voters approved \$48.3 million in street and drainage improvements as part of a larger bond program in November 2003.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works (Continued)

The Northeast Service Center, located along Wurzbach Parkway was completed in 2003. The facility consists of vehicle maintenance operations for Purchasing, Street Maintenance Operations under Public Works, and garbage collection services by Environmental Services Department. This facility also includes a 3,000 square foot multi-use space for meetings and public use.

The Street Maintenance Division expanded its Pavement Reclamation program in its second year of implementation. The Pavement Reclamation program is specifically designed for full-depth street reclamation. The reclaimer also recycles existing asphalt “in-place” instead of having to purchase new asphalt for street maintenance projects. This process reduces the amount of time it takes to reconstruct a street by 50%. Customer Service is improved by minimizing inconvenience to the citizens while working in their neighborhoods. Recycling of the existing asphalt diverts waste from the landfill. Two additional asphalt pavers and milling machines purchased in 2003 are used to assist City crews in meeting increased customer demand for paved asphalt projects with smooth riding surfaces and skid resistance to improve safety.

Neighborhood Accessibility & Mobility Program (NAMP) funding has been increased to \$400,000 for each council district and the scope of work under this program has been expanded from sidewalks and speed humps to other transportation improvements such as street maintenance, small street repair, traffic signals, school flashers, pedestrian walkways and medians. The additional funding and expansion of projects under NAMP will be positive for neighborhoods needing specific improvements.

A thirty-percent across the board rate increase for the Storm Water Utility fee provided improvements in the delivery of services as well as providing for the capacity to issue Storm Water Revenue Bonds for the first time. In cooperation with Bexar County and the San Antonio River Authority, regional drainage projects were evaluated and prioritized for execution using the nearly \$45 million generated through the sale of these revenue bonds. All twenty-two projects are underway. Projects include infrastructure recapitalization from the July 2002 flood, floodplain property buy-out, design and construction of major outfalls, and elimination of low water crossings.

The cooperation and collaboration within the Regional Flood Control, Drainage, and Storm Water Management Program made great strides. A Regional Watershed Modeling System was completed. This will form the basis for generating design and operational standards throughout Bexar County. Work has begun to create watershed models for both public and private sector users to mitigate impact of new development and significant redevelopment on both storm water quantity and quality issues. A strategic financial model is near completion that will assist in making future strategic funding decisions.

For the first time, the citywide street cleaning program has been coordinated with the City’s brush pick up services to increase the efficiency and effectiveness of both of these vital services. Using Natural Resource Conservation Service and Bexar County funding, City crews are near completion of major flood debris clean up efforts in the major natural waterways within the City. With this coordinated effort, standardized methodology for debris cleanup within natural waterways has been developed for annual implementation. A major de-silting effort was completed at Davis Lake on the San Antonio River in the vicinity of Espada Dam. Nearly 170,000 cubic yards of naturally deposited silt has been removed. This effort will provide for increased capacity in the channel as well as a significant enhancement to the surface water quality of the river.

The Right of Way Division has directed/overseen the rehabilitation of \$250,000 worth of improvements from right-of-way users and is currently working to negotiate approximately \$250,000 more. The Division is working to resurrect the on-line permitting site and will soon be interfacing with the Pavement Management System.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Convention Facilities

During the last year, the Henry B. Gonzalez Convention Center hosted 350 events with over 600,000 attendees. Events at the Center include conventions, tradeshow, corporate meetings, public shows, and private events. The San Antonio Automobile Dealers Association had record numbers with 110,000 attendees, the Veteran's of Foreign Wars of the US Annual National Convention brought over 16,000 attendees to the City, and Armstrong McCall's World's Fair of Cosmetics Arts record attendance resulted in their booking three future shows. In the arena of professional accomplishments, we have the distinction of having 16 Certified Meeting Professionals, which is more than any other convention center. This program is ongoing and there will be 6 more candidates eligible for this designation in the coming year.

Alamodome

In 2003, the Alamodome celebrated its tenth year anniversary. Over the last year, the facility hosted close to a million visitors for 150 events.

In its inaugural year of marketing its own advertising, the Alamodome secured a multi-million dollar sponsorship with the Pepsi Bottling Group. Pepsi and its products will be the official non-alcoholic beverages of the facility for the next five years. The Alamodome continues to focus on its advertising program while forging new corporate partnerships.

A true success story in 2003 was the funding approval for much needed interior improvements to the Alamodome. As part of this package, the facility will receive a fresh, modern look in the early part of 2004. New architectural features, updated restrooms, remodeled dining facilities, as well as several other features will add to the facility's appeal.

The 2003 NCAA Men's South Regional tournament was a huge success, with the Alamodome hosting one of the best-attended NCAA tournaments of the year. Approximately 60,000 fans converged on San Antonio for the two-day event. The Alamodome looks forward to being the site of the 2004 NCAA Men's Final Four.

The ESPN X-Games Global Championships debuted in May at the Alamodome. This event was the first of its kind produced by ESPN with simultaneous broadcasting between the summer games in San Antonio and the winter games in Whistler, B.C. The X Games Global Championship was viewed by more than 110 million households and aired in 140 countries. Due to the tremendous success of the event, ESPN plans to bring the event back to the Alamodome in 2005.

Spurs fever returned to the Alamodome once again! Though the team has moved to the SBC Center, the new venue was too small to accommodate their many fans for the city wide NBA Championship Celebration. The Alamodome hosted more than 57,000 well wishers at the largest championship party the team had ever had.

Nelson W. Wolff Municipal Stadium

The Nelson W. Wolff Baseball Stadium opened in April 1994 and has a seating capacity of 6,500. It has a multi-purpose design, which allows for events such as professional baseball, concerts, boxing, and high school, college, and amateur sports. The stadium is home to the San Antonio Missions, a double-A minor league baseball team. In 2000, the Missions became a farm club of the Seattle Mariners. The Missions won the Texas League Championship in 2003 for a second time since moving to the stadium.

Other Amenities

The City supports and promotes various other tourism and quality-of-life amenities, including performing arts and cultural entertainment facilities, museums, the San Antonio Zoo, and the preservation of the Alamo, as well as

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Other Amenities (Continued)

enterprises such as Sea World of Texas, and Six Flags Fiesta Texas. The City also provides support and funding for cultural organizations, from dance performance companies to the Symphony Society of San Antonio, and facilities including the Witte Museum, the San Antonio Museum of Art, the Southwest Craft Center, the Carver Community Cultural Center, and the Guadalupe Cultural Arts Center.

In addition, San Antonio is home to various professional sports teams including the San Antonio Spurs, the San Antonio Rampage Ice Hockey team, and the San Antonio Missions. San Antonio also hosts two PGA tour events, the Valero Texas Open and Senior PGA SBC Championship.

International Outlook

In its fifth year, the City's International Affairs Department continues to develop an Export Leaders Program that focuses on small to medium size San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program is a competitive eight-month program that offers the tools, training, consultation and coaching necessary for about fifteen companies to be successful in exporting and offers the participants a new export experience. In four years, the program has graduated 48 companies.

San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, Latin America, and other regions of the world. This encompasses transportation, manufacturing, and logistics facilities as well as professional and value-added services involved in producing, marketing, and moving freight within, into and out of the San Antonio area. Over the past eleven years, the City has operated three commercial trade offices in Mexico's three largest cities: Mexico City, Guadalajara and Monterrey.

The City's commitment to international trade is evidenced in the City's International Center which houses the North American Development Bank, International Conference Center, the Trade Commission of Mexico, Mexican State Trade Offices, the Free Trade Alliance San Antonio, the U.S. Department of Commerce, the City's International Affairs Department and the Convention & Visitors Bureau.

Budgetary Controls

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are appropriated as part of the following year's budget. For the fiscal year beginning October 1, 2001, the Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management. As in the Financial Section, all monetary amounts presented in the remainder of this letter are expressed in thousands, except where noted.

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits

The City provides pension retirement benefits for its eligible employees through two plans. For uniformed Fire and Police employees, retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan. Contribution and benefit levels are established under State statute. For fiscal year 2003, active members contributed 12.32% of covered payroll, or \$22,504 and the City contributed 24.64%, or \$45,008.

The City provides all other eligible employees, exclusive of fire and police employees, retirement benefits through the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.42%. Both the City and its covered employees made the required contributions of \$22,684 and \$11,864 respectively. For additional information on the City's pension plans, see Note 8 in the notes to the financial statements.

With respect to post-employment health benefits, the City provides benefits for all non-uniformed City retirees and for all pre-October 1, 1989 uniformed fire and police retirees. The cost of the program is reviewed annually and actuarially determined costs of medical claims are funded jointly on a pay-as-you-go basis with the City contributing 2/3 and the retirees contributing 1/3 of the cost. As of September 30, 2003, 1,495 retirees were participating in the program and currently there are 6,530 active civilian employees who may become eligible for this program in the future.

The second post-employment health benefit program provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions, respectively. The benefits of this plan are financed on a prefunded basis. For fiscal year 2003, the City contributed \$15,466 to the Fund and active employees and retirees contributed \$1,678. Recent actuarial studies have resulted in different results and indicate that the current contribution levels are not sufficient to amortize the unfunded liability of the Fund. The City continues to review the Fund in order to develop a comprehensive framework for a long-term solution. For additional information on City's post-employment health benefits, please see Note 9, of the notes to the financial statements.

Employee Benefits Program

The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased prescription drug costs, increased claims volume and changing employee demographics. The City continues to focus on cost containment programs such as: hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization to assist in managing the rising cost of medical care. Such strategies have been effective for the City in managing medical costs in a changing health care industry. The City is in the process of hiring an additional Utilization Review Specialist to support the cost containment programs and aid in identifying cost savings. In fiscal year 2004, the City will have an opportunity to further enhance the cost containment program by evaluating additional options for plan modifications when the HMO, PPO, and health benefits third party administrator's contracts expire. The total cost savings for fiscal year 2004, as a result of plan changes, premium increases, and enhanced cost containment is estimated at \$1,999. In fiscal year 2003, the Employee Benefits Fund had cash reserve of \$192 and a deficit net assets balance of \$19,919. For additional information on the City's risk and employee benefits programs, please see Note 12, of the notes to the financial statements.

FINANCIAL INFORMATION (Continued)**Fiscal Management and Administrative Topics (Continued)**Risk Management Programs

For the sixth time in twelve years, the Insurance Reserve Fund maintained a positive net assets balance of \$3,889 for the fiscal year 2003. Whereas, the Workers' Compensation Fund reflected a negative net assets balance of \$4,659. The Insurance Reserve and Workers' Compensation Funds carried cash reserves at September 30, 2003 in the amount of \$15,558 and \$11,779, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 3,370 employees received formal classroom training on a number of subjects, totaling 43,810 classroom hours collectively. Training classes include Defensive Driving, First Aid and CPR, Drug and Alcohol Awareness training for commercial drivers and supervisors, New Employee Safety Orientations, Professional Truck Driving, Supervisor's Accident Investigation training, Hazardous Chemicals training, Ergonomics Awareness, and other specialized training courses. The Safety Office has spent in excess of 1,175 hours in delivering the aforementioned formal training.

In addition, the Safety Office continues to improve the quality of safety and health education to serve the needs of all City employees by developing customized training programs and updating training materials and/or training methods. The Safety Office has also provided Departments 1,795 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2003. It has initiated the use of a more comprehensive format during consultative visits with Departments this year to assist in identifying and evaluating both safety, health and liability risk exposure. Loss Control abatement measures are recommended wherever possible. Preventing cumulative trauma and repetitive motion injuries have continued to receive major focus by the inspection and evaluation of employee work environments with recommendations for adjustments or changes when needed. Facility inspections and accident investigations are also conducted by the Safety Specialists. Review of accident statistics continues to represent a significant area of responsibility for the Section in order to assist departments in identifying and correcting negative trends in frequency and loss severity. This year 3,924 employee driver evaluations were processed with records being updated.

Cash and Investment Management

The City's investment policies are governed by state statute and the City's own written investment policies. Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each fund's investment. Each investment strategy statement will describe strategy objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

The City is authorized to use demand accounts, time accounts, certificates of deposit, and other permissible investments including Obligations of the U.S. Treasury and U.S. Agencies, Obligations of States and Cities, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio does not include callable obligations or any derivative products. It is not the City's policy to use derivative products in its portfolio, nor does the City leverage its investments.

At September 30, 2003, City investment funds were 91.49% invested in obligations of the United States, or its agencies and instrumentalities, and 5.79% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 2.31% of the City's portfolio includes the Convention Center Debt Service Reserve Fund of \$16,999, which was invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings. For additional information on Cash and Investments, please see Note 3 of the notes to the financial statements.

FINANCIAL INFORMATION (Continued)**Fiscal Management and Administrative Topics (Continued)**Debt Administration

The City utilizes a comprehensive debt management financial planning program (The Debt Management Plan), which is updated annually. The Debt Management Plan is a major component of the City's financial planning. The model projects financing needs while measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed values changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning which has allowed the City to capitalize on market opportunities.

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Public Ratings Services, a division of McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") respectively. The positive trend in the City's credit strength is evidenced by S&P's rating upgrade in December 1998 from "AA" to its current "AA+" and Fitch's rating upgrade in October 1999 from "AA" to "AA+". For additional information on the City's long-term debt, please see Note 6 of the notes to the financial statements.

OTHER INFORMATION**INDEPENDENT AUDIT**

State statutes require that an annual audit by an independent certified public accountant be conducted. The City's Audit Committee selected the accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA in 2002. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The Independent Auditors' Report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996 and OMB Circular A-133 are in a separate document.

AWARDS

San Antonio's appeal to its citizens, potential businesses and visitor's stems from its historical beauty, high quality of life and low cost of living. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended September 30, 2002. This was the 27th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. The report must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year and we believe the current CAFR continues to meet the Certificate of Achievement Program's requirements.

The City of San Antonio Planning Department was recognized by the Texas Chapter of the American Planning Association (APA) with two (2) 2003 Texas APA Planning Awards. The Department received the 2003 Project Planning Award for the Southside Initiative Community Plan. In addition, the Neighborhood Conservation District program was honored with the 2003 Current Planning Award.

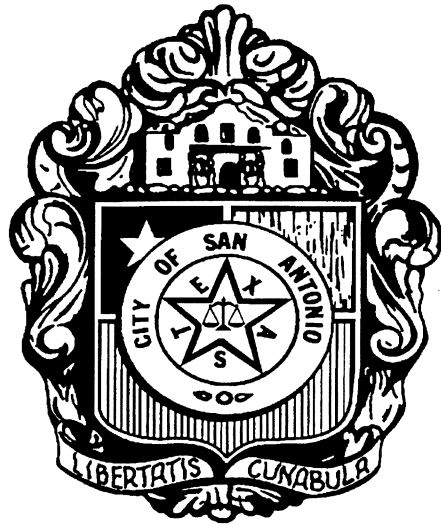
OTHER INFORMATION (Continued)

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2003, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Manager, Assistant City Managers, Assistants to the City Manager, and their staff, for their continued support.

Respectfully Submitted,

A handwritten signature in dark ink, appearing to read "Milo D. Nitschke", written in a cursive style.

Milo D. Nitschke
Director
Finance Department



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



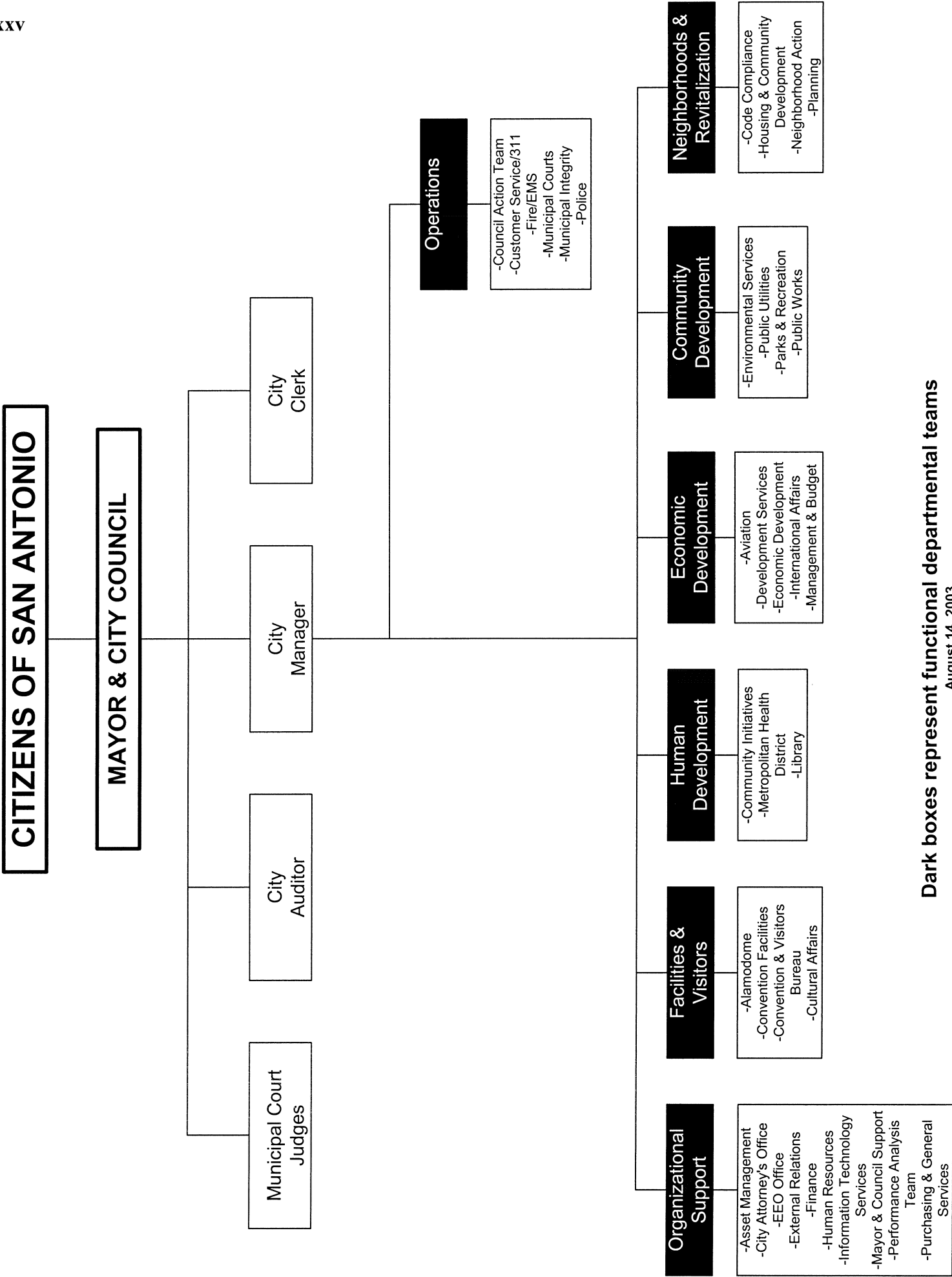
President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Antonio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2002. This was the 27th consecutive year that the City has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.



CITY OF SAN ANTONIO, TEXAS

Incorporated December 14, 1837

Charter Adopted October 2, 1951

Council - Manager Form of Government

CITY COUNCIL

Edward D. Garza, Mayor

Roger O. Flores

Joel Williams

Ron H. Segovia

Richard Perez

Patti Radle

Enrique M. Barrera

Julian Castro

Art A. Hall

Carroll W. Schubert

Christopher Haass

CITY MANAGER

Terry M. Brechtel

DEPUTY CITY MANAGER

J. Rolando Bono

ASSISTANT CITY MANAGER

Christopher J. Brady

ASSISTANT CITY MANAGER

Melissa Byrne Vossmer

ASSISTANT CITY MANAGER

Jelynn L. Burley

ASSISTANT CITY MANAGER

Frances A. Gonzalez

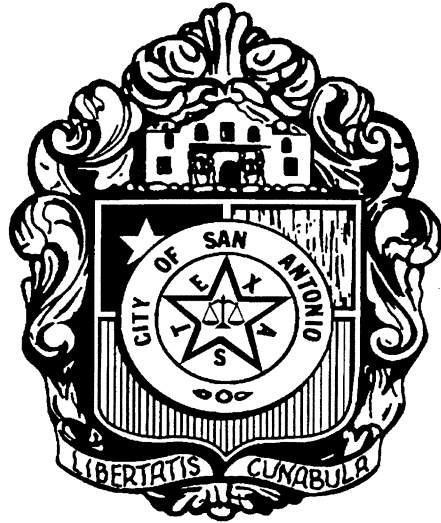
ASSISTANT TO THE CITY MANAGER

Roland A. Lozano

ASSISTANT TO THE CITY MANAGER

Erik J. Walsh

**MEMBER OF THE GOVERNMENT FINANCE OFFICERS
ASSOCIATION OF THE UNITED STATES & CANADA**





***City of San Antonio
Texas***

Financial Section



***City of San Antonio
Texas***

Independent Auditors' Report



300 Convent, Suite 1200
San Antonio, TX 78205



Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, TX 78265-4058

LEAL & CARTER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, Texas 78230-2573

Independent Auditors' Report

The Honorable Mayor
and Members of City Council
City of San Antonio, Texas:

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of and for the year ended September 30, 2003, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

	Percent not jointly audited	
	Total assets	Total revenue
Government-wide		
Governmental activities	0%	0%
Business-type activities	0%	0%
Discretely presented component units	27%	21%
Fund statements		
Major funds	0%	0%
Aggregate remaining fund information	73%	34%

	Percent audited by KPMG separately		Percent audited by Leal & Carter separately		Percent audited by Robert J. Williams separately	
	Total assets	Total revenue	Total assets	Total revenue	Total assets	Total revenue
Government-wide						
Discretely presented component units	0%	0%	1%	1%	0%	0%
Fund statements						
Aggregate remaining fund information	5%	4%	0%	0%	0%	0%



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss cooperative

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 12, the Budgetary Comparison schedule on page 113, and Schedules of Funding Progress on page 114 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we, and the other auditors, did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of San Antonio, Texas' basic financial statements. The introductory section, the combining financial statements, schedules and other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules and other supplementary information have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP Robert Williams CPA Seal & Carter, P.C.

February 23, 2004